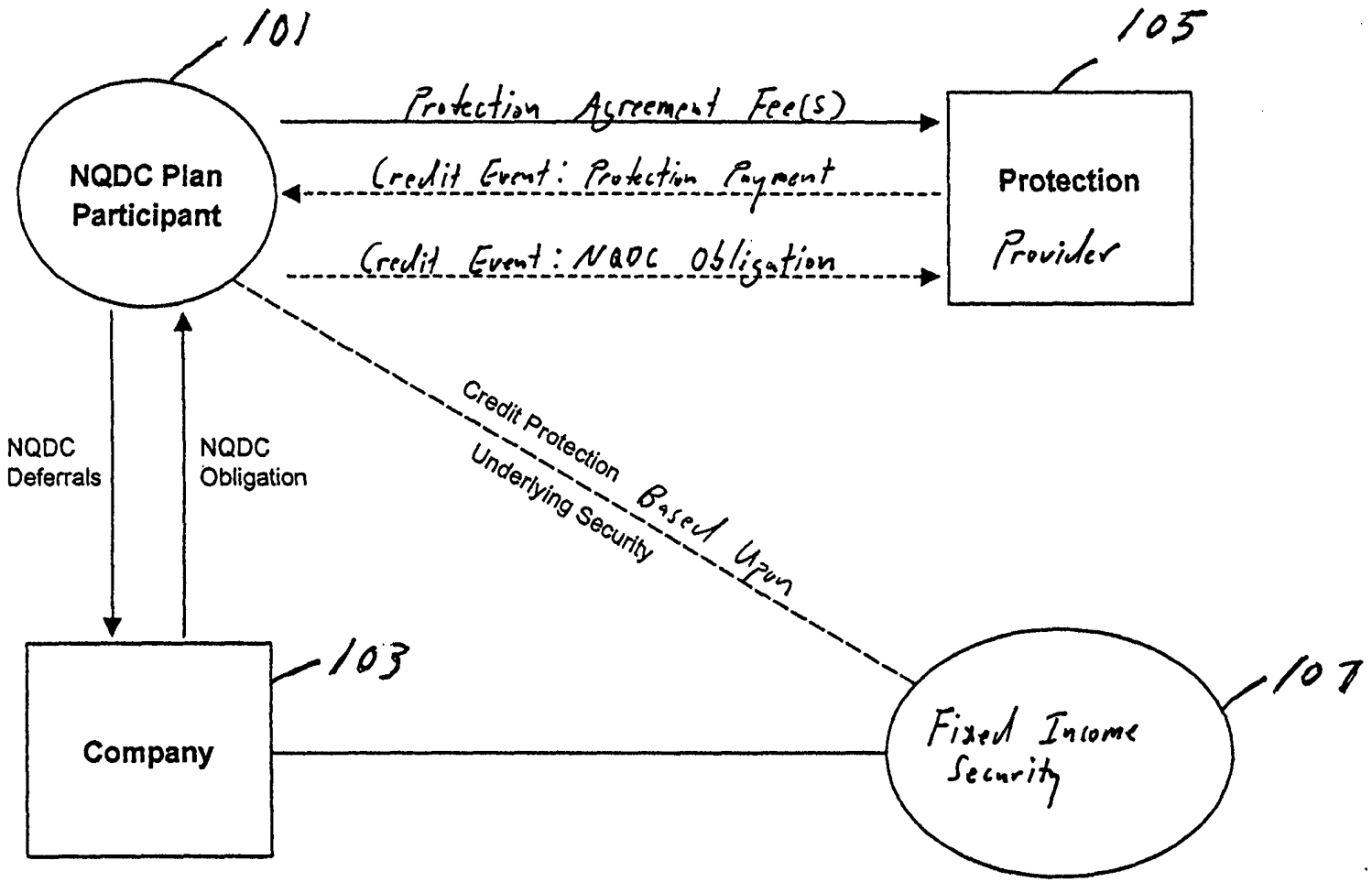
Fig. 1


101
105
NQDC Plan Participant
Protection Agreement Fee(s)
Credit Event: Protection Payment
Credit Event: NQDC Obligation
Protection Provider
NQDC Deferrals
NQDC Obligation
Credit Protection Based Upon Underlying Security
103
107
Company
Fixed Income Security

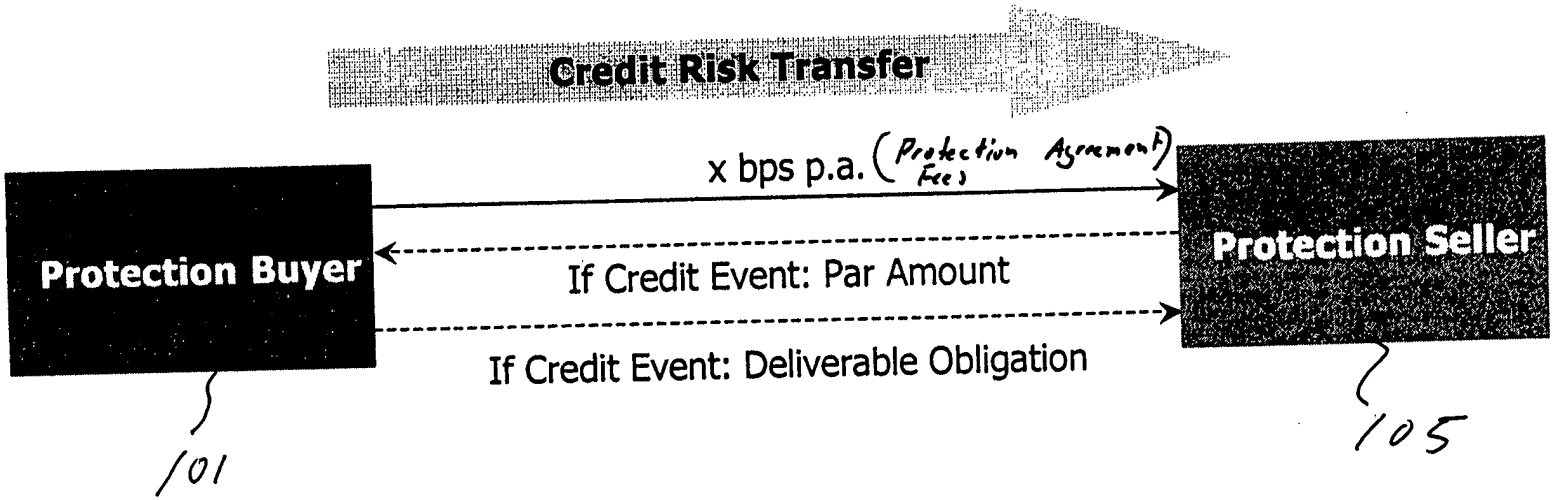

Credit Risk Transfer
x bps p.a. (Protection Agreement Fee)
Protection Buyer
Protection Seller
If Credit Event: Par Amount
If Credit Event: Deliverable Obligation
101
105

Fig. 2

Fig. 3

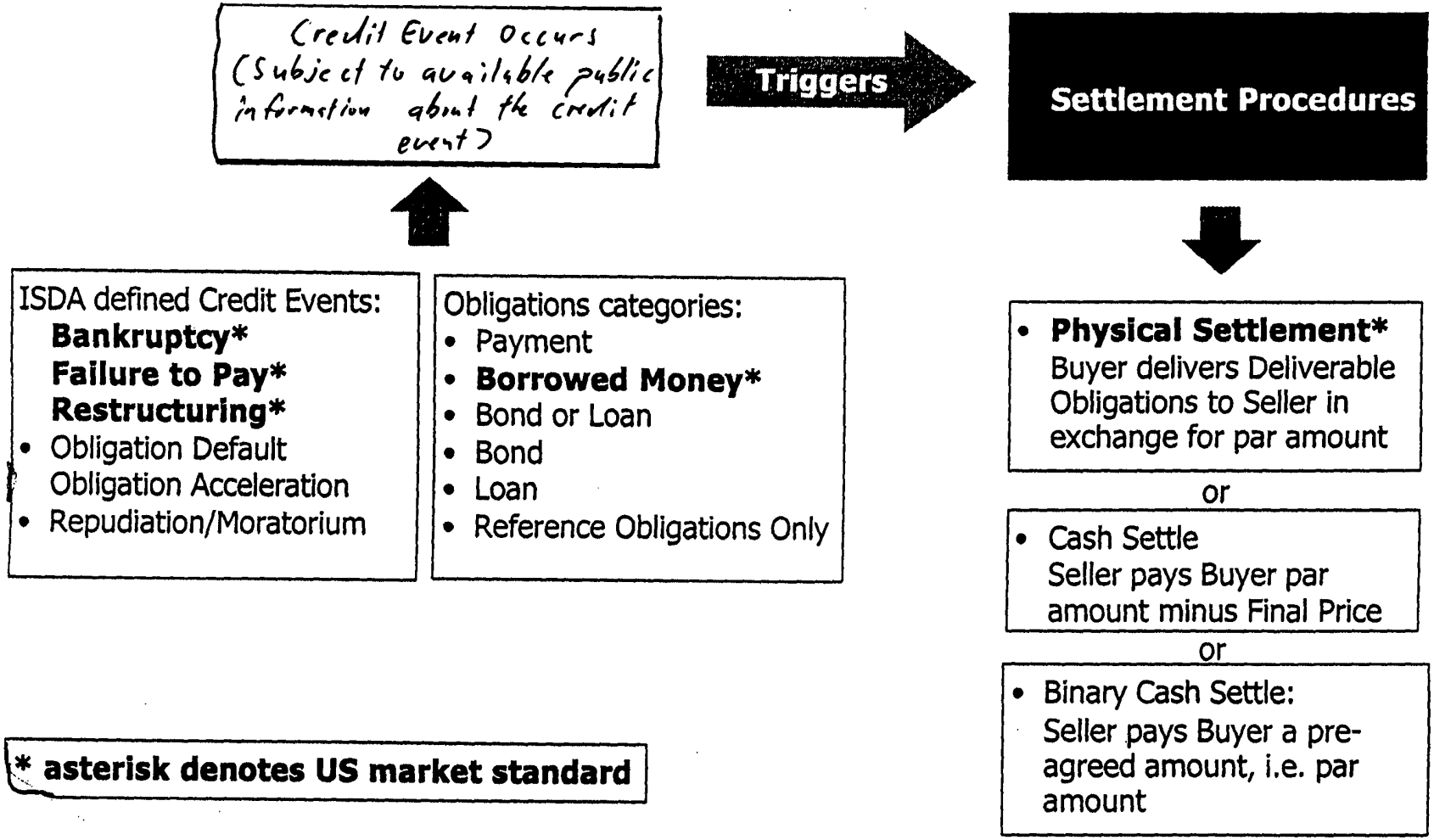
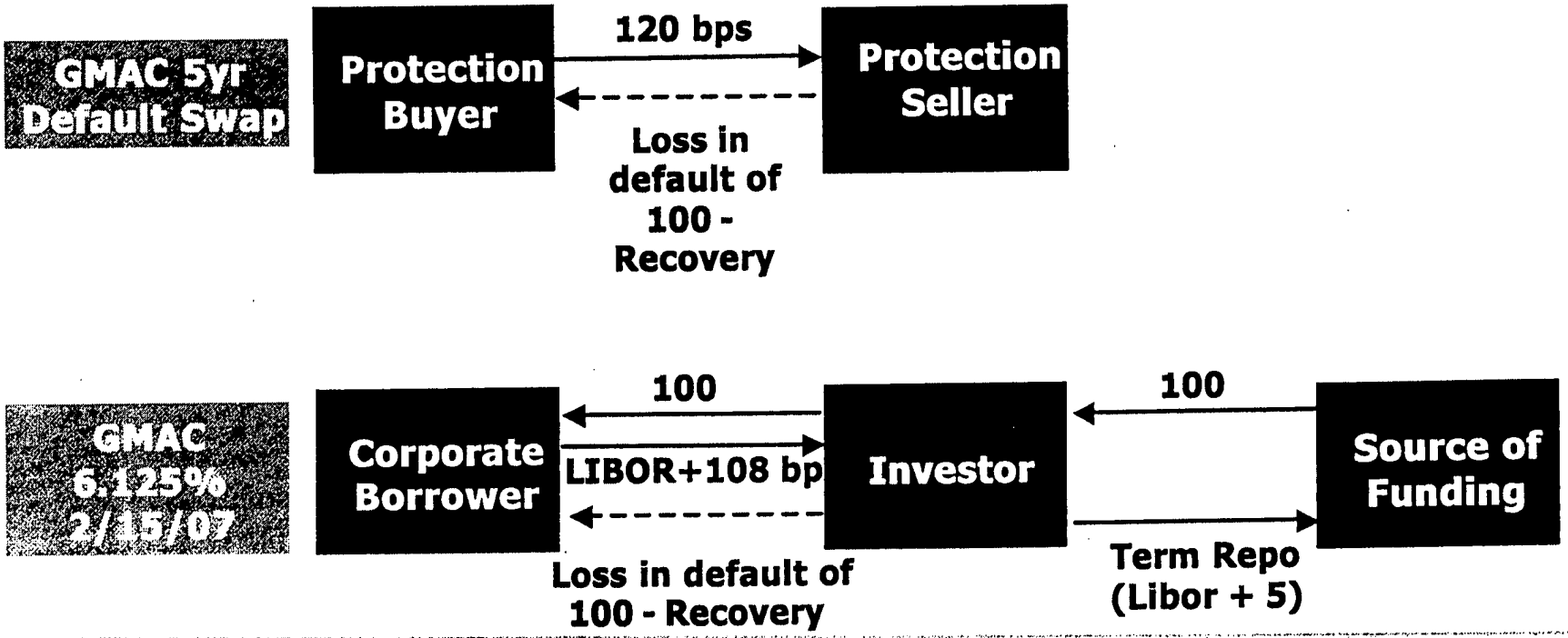

Credit Event Occurs (Subject to available public information about the credit event)
Triggers
Settlement Procedures
ISDA defined Credit Events:
Bankruptcy*
Failure to Pay*
Restructuring*
• Obligation Default
Obligation Acceleration
• Repudiation/Moratorium
Obligations categories:
• Payment
• Borrowed Money*
• Bond or Loan
• Bond
• Loan
• Reference Obligations Only
• Physical Settlement*
Buyer delivers Deliverable Obligations to Seller in exchange for par amount
or
• Cash Settle
Seller pays Buyer par amount minus Final Price
or
• Binary Cash Settle:
Seller pays Buyer a pre-agreed amount, i.e. par amount
* asterisk denotes US market standard

Fig. 4

Pricing Comparison: Sell Default Swap vs. Purchase Asset